

Message Text

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ACTION ARA-06

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 1937

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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TAGS EAGR BR

SUBJECT: BRAZILIAN SOYBEAN EXPORT POLICY MEASURES

REF: (A) STATE 120865, (B) BRASILIA 4307, (C) BRASILIA 4359

1. SUMMARY. THIS MESSAGE REPORTS VIEWS AND EXPLANATIONS OF RECENT BRAZILIAN SOYBEAN EXPORT POLICY MEASURES AS GIVEN BY SENIOR SOYBEAN INDUSTRY EXECUTIVE TO CONSUL GENERAL IN SAO PAULO. END SUMMARY.

2. FOLLOWING RECEIPT OF REFTEL (A), CONSUL GENERAL IN SAO PAULO, AT EMBASSY'S REQUEST, CONTACTED SENIOR SOYBEAN INDUSTRY EXECUTIVE, ON CONFIDENTIAL BASIS, TO OBTAIN HIS VIEWS ON THE OBJECTIES OF RECENT BRAZILIAN SOYBEAN EXPORT POLICY MEASURES. SOURCE IS WELL-INFORMED, TOP COMMODITY EXECUTIVE OF A LARGE SOYBEAN CRUSHER, WITH OVER TWENTY YEARS OF EXPERIENCE IN COMMODITIES IN BRAZIL. AN INDUSTRY ADVISOR TO THE BRAZILIAN GOVERNMENT--HE SERVES CURRENTLY AS AN ADVISOR TO THE BRAZILIAN DELEGATION WHICH WILL RENEGOTIATE TRADE AGREEMENT WITH THE EC IN BRUSSELS--
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HE WAS ONE OF THE MISSION'S PRINCIPAL INDUSTRY SOURCES ON PREVIOUS REPORTING ON SOYBEANS. FOLLOWING IS CONSUL GENERAL'S REPORT.

3. QUOTE: MY SOURCE ASSURED ME THAT THE WHOLE GAMUT OF BRAZILIAN MEASURES WITH REGARD TO SOYBEANS AND PRODUCTS WHICH HAS BEEN TAKEN SINCE MARCH 16 WAS DESIGNED TO CONTRIBUTE TO CURTAILMENT OF INFLATION

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ARY TRENDS IN BRAZIL. IT IS CONSISTENT WITH THE PRACTICE OF AD HOC MEASURES SO CHARACTERISTIC OF BRAZILIAN ECONOMIC POLICY IN RECENT YEARS. CHANGES ARE MADE WHENEVER NECESSARY TO ACHIEVE THE DESIRED OBJECTIVE. THE FINANCE MINISTER HAD DECIDED THAT HE WISHED TO FIX CANNED SOYBEAN OIL PRICES TO DOMESTIC CONSUMERS AND TO FIX SOYBEAN MEAL PRICES TO THE MIXED FEED PRODUCERS FROM MARCH THROUGH THE REMAINDER OF 1977. AT THE SAME TIME, THE MINISTER WAS AWARE OF THE POLITICAL SENSITIVITY OF TAKING ANY ACTION WHICH WOULD DISRUPT THE DOMESTIC SUPPLY OF CANNED SOYBEAN OIL, A MAJOR CONSUMER ITEM IN THE LARGE URBAN AREAS, AND REPRODUCE THE DISAPPEARANCE OF SOYBEAN OIL FROM THE SUPERMARKET AND GROCERY SHELVES AND THE SOYBEAN OIL LINES OUTSIDE STORES WHICH CHARACTERIZED THE MONTHS OF OCTOBER, NOVEMBER, AND DECEMBER 1973. AT THE TIME WHEN THE BRAZILIAN GOVERNMENT'S POPULARITY IS NEAR AN ALLTIME LOW IN MAJOR URBAN CENTERS, AS REVEALED BY PUBLIC OPINION SURVEYS, AND WHEN UNEMPLOYMENT AND UNDEREMPLOYMENT ARE GROWING IN AT LEAST SAO PAULO, THE GOVERNMENT COULD NOT BEAR THE POLITICAL COST OF BORROWING ADDITIONAL TROUBLE THROUGH CONSUMER DISSATISFACTION.

4. QUOTE::THE MARCH 16 SUSPENSION OF EXPORT LICENSES FOR NEW CROP SOYBEANS, SOYBEAN MEAL AND SOYBEAN OIL WAS TAKEN, THEREFORE, TO PREVENT WINDFALL PROFITS BY SPECULATORS OR INSIDERS WHO MIGHT LEARN OF THE PROPOSED MARCH 23 SEVEN PERCENT CONTRIBUTION TAX ON EXPORTS AND RUSH IN AND REGISTER FICTITIOUS EXPORT SALES (DECLARACOES FRIAS) BEFORE THE VALIDITY DATE OF THE NEW TAX. THE 7 PERCENT WAS DESIGNED TO FINANCE THE PAYMENTS OF SUBSIDIES TO MAINTAIN A FIXED PRICE ON SOYBEAN OIL AND MEAL DOMESTICALLY THROUGH THE END OF THE YEAR. THE SUBSIDY WAS INITIALLY C\$400 A TON ON SOYBEAN MEAL AND C\$31 PER CASE OF 20 CANS OF 900 MILLILITERS OF SOYBEAN LIMITED OFFICIAL USE

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OIL, PAID TO THE SOYBEAN CRUSHERS. THE CRUSHERS WERE REQUIRED TO SELL THE MEAL TO THE MIXED FEED PRODUCERS AT C\$2,500 A TON. THE MARCH 24 RESUMPTION OF EXPORT LICENSES WAS DIRECTLY RELATED TO THE MARCH 23 MEASURES, AND ON MARCH 24 THERE WAS A MEETING BETWEEN THE GOVERNMENT AND THE TRADE, IN WHICH MY SOURCE TOOK PART, IN WHICH THE MEASURES ANNOUNCED APRIL 1 WERE DECIDED UPON. IT WAS DECIDED AT THAT TIME THAT THERE SHOULD BE A MONTHLY MEETING TO REVIEW THE ENTIRE SUPPLY AND DISTRIBUTION SITUATION AND THAT ALL PARTS OF THE TRADE WOULD HAVE TO SUBMIT VERY DETAILED REPORTS ON THEIR INDIVIDUAL COMPANY OR COOPERATIVE SUPPLY POSITIONS AS OF THE 15TH AND END OF EACH MONTHS. THESE WERE DUE IN GOVERNMENT HANDS FIVE DAYS LATER. AS A RESULT OF THE APRIL 25 MEETING WHICH REVIEWED THE SUPPLY POSITION AS OF APRIL 20 THE CONCLUSION WAS REACHED THAT SUFFICIENT SALES WERE NOT BEING MADE BY THE DOMESTIC CRUSHERS, PARTICULARLY TO THE MIXED FEED PRODUCERS (WHO WERE COMPLAINING IN THE PRESS ABOUT THEIR INABILITY TO BUY FROM THE CRUSHERS). IT WAS CONCLUDED THAT THE SUBSIDIES WERE TOO LOW AND THAT THE INITIAL 7 PERCENT TAX WAS THEREFORE INSUFFICIENT TO PAY FOR THE PROPER DOMESTIC SUBSIDIES ON SOYBEAN OIL AND MEAL. THE

MINISTER OF FINANCE WAS ADAMANT, AND HAD BEEN FROM THE VERY BEGINNING

,
THAT THE DOMESTIC SUBSIDIES HAD TO BE PAID OUT OF THE EXPORT
EARNINGS AND COULD NOT ENCUMBER THE GENERAL REVENUES OF THE
BRAZILIAN GOVERNMENT. THUS AT THE APRIL 25 MEETING, THE SUBSIDIES
WERE RAISED TO C\$700 PER TON OF SOYBEAN MEAL AND TO C\$38 PER
CASE OF 20 CANS OF SOYBEAN OIL, AND THE ORIGINAL SUBSIDY OF C\$400
WAS INCREASED RETROACTIVELY BY C\$300 FOR EVERY TON OF MEAL DELIVERED
SINCE THE SUBSIDY SYSTEM WENT INTO EFFECT.

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ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 ARAE-00 NSC-05 NSCE-00 SP-02
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FM AMEMBASSY BRASILIA
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INFO AMCONSUL RIO DE JANEIRO
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5. QUOTE: THE BRAZILIAN GOVERNMENT, THE SOURCE ASSURED ME, DID NOT
AND DOES NOT WANT A RUN UP IN SOYBEAN PRICES. IT CONSIDERS THE
PRESENT PRICE LEVELS FOR EXPORTS TO BE VERY FAVORABLE FOR FARMERS,
WISHES TO CURTAIL SPECULATIVE RETENTION OF SOYBEANS BY FARMERS AND
COOPERATIVES AND DESIRES TO MOVE THE BULK OF THE SOYBEANS AND
PRODUCTS INTO EXPORT MARKETS BEFORE THE AMERICAN CROP COMES IN THIS
FALL, WHILE ASSURING THE DOMESTIC SUPPLY OF OIL AND MEAL AT
CURRENT PRICES THROUGH THE REST OF THIS YEAR AND ADEQUATE SUPPLIES
UNTIL THE NEXT BRAZILIAN HARVEST. SOURCE SAID HIS FIRM WAS
CURRENTLY BUYING SOYBEANS AT C\$195 A BAG WHEN THE AVERAGE PRODUCTION
COST WAS C\$90. THUS THE FARMER HAD A VERY GOOD PROFIT.

6. QUOTE: THE MARCH 28 DECISION TO LIBERATE FIXED PRICE EXPORT
CONTRACTS BUT NOT NON-PRICED CONTRACTS WAS DIRECTLY RELATED TO
CURBING SPECULATION. ONE COOPERATIVE IN SOUTHERN BRAZIL HAD
SOLD ITS ENTIRE EXPECTED SUPPLY OF BEANS ON FICTITIOUS NON-PRICED
CONTRACTS AND WOULD HAVE HAD A HUGE WINDFALL IF IT HAD BEEN EXEMPTED
FROM THE 7 PERCENT TAX AND PERMITTED TO EXPORT. PRESSURES FROM

SEGERAL COOPEATIVES LED THE GOVERNMENT TO OPEN UP NON-FIXED PRICE CONTRACTS ON APRIL 13, BUT ONLY AS NOTED IN THE INCOMING MESSAGE (REF A) TO A LIMITED PERCENTAGE OF TOTAL SALES AND BELIEVED BY MY SOURCE TO BE NOT IN EXCESS OF 20 PERCENT, ALTHOUGH HE WAS NOT SURE ON THIS POINT. THE REASON FOR THE GOVERNMENT'S ACTION WAS LIMITED OFFICIAL USE

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THAT THE COOPERATIVES HAD CONVEINCINGLY ARGEUED THAT THEIR MEMBERS WOULD NOT FIX PRICES TO THE COOPERATIVES AND THUS THEY NEEDED THE FLEXIBILITY IN ORDER TO MOVE THE SOYBEANS ON A REGULAR BAISIS INTO EXPORT CHANNELS, AS THE GOVERNMENT DESIRED. MOREOVER, THE COOPERATIVES PROMISED THE GOVERNMENT THAT THEY WOULD MOVE THE SOYBEANS WHENEVER THEIR MEMBERS FIXED PRICES.

7. QUOTE: IN FURTHER SUPPORT OF HIS CONTENTION THAT THE BRAZILIAN GOVERNMENT IS ANXIOUS TO MOVE SOYBEANS AND PRODUCTS INTO EXPORT CHANNELS NOW AT PRESENT PRICES, SOURCE CITED TWO RECENT MEASURES TAKEN BY THE GOVERNMENT TO TIGHTEN CREDIT AND TO FORCE COOPERATIVES AND FARMERS TO SELL THEIR BEANS. THE GOVERNMENT IS PERMITTING THE RENEWAL OF ONLY A PART OF THE EMPRESTIMO GOVERNO FEDERAL (EGF) WHICH PERMITS COOPERATIVES AND FARMERS TO HOLD SOYBEANS AND HAS DIRECTED THE BANK OF BRAZIL NOT TO RENEW CROP LOANS WHICH WERE MADE DIRECTLY TO FARMERS ON THEIR SOYBEANS AND WHICH ARE NOW COMING DUE.

8. QUOTE: SOURCE ALSO POINTED OUT THAT THE BRAZILIAN GOVERNMENT HAD TAKEN ACTION EARLY IN MAY TO SUSPEND OIL AND MEAL EXPORTS ONCE AGAIN. THIS WAS PART OF THE OVERALL, CONTINUING REVIEW OF THE SUPPLY SITUATION, AND THE BRAZILIAN GOVERNMENT AFTER REVIEWING THE END OF APRIL SUPPLY SITUATION HAD LIBERATED SOYBEAN MEAL EXPORTS UP TO 20 PERCENT OF THE AMOUNT PREVIOUSLY REGISTERED. NO MONTHLY MEETING BETWEEN THE GOVERNMENT AND THE TRADE HAD TAKEN PLACE ON MAY 25 BUT A TELEPHONE POLL OF THE TRADE WAS IN PROCESS. NOW THAT THE LAST SUPPLY REPORTS HAD BEEN RECEIVED FROM COOPERATIVES IN SANTA CATARINA AND RIO GRANDE DO SUL, SOURCE EXPECTED THAT SOME QUANTITY OF SOYBEAN OIL WOULD BE RELEASED FOR EXPORT, PROBABLY MAY 30 OR MAY 31. O ESTADO MAY 31 REPORTS THIS OCCURRED MAY 30. HE SAID 220,000 MT HAD ALREADY BEEN REGISTERED FOR EXPORTS (O ESTADO MAY 31 SAY 215,000) AND THAT ANOTHER 180,000 WOULD BE AUTHORIZED FOR EXPORT DURING 1977, (THESE FIGURES JIBE WITH ACCOUNT IN O ESTADO) BUT THE AUTHORIZATIONS WOULD BE PARCELED OUT GRADUALLY ON AN INDIVIDUAL EXPORTER BASIS TO ASSURE ADEQUATE DOMESTIC LIMITED OFFICIAL USE

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SUPPLIES. FOR EXAMPLE, HE SAID HIS

FIRM'S ADDITIONAL SOYBEAN

OIL QUOTA TO THE END OF THE YEAR WOULD BE 10,000 MT, AND HE EXPECTED
3,000 TO BE RELEASED FOR EXPORT SHORTLY.

9. QUOTE: WITH REGARD TO THE TOTAL SOYBEAN CROP THIS YEAR, SOURCE
CONFIRMED THAT BECAUSE OF DROUGHT IN MINAS GERAIS, SAO PAULO AND
PARANA AND OTHER FACTORS, THERE HAD BEEN A DROP FROM THE 12.5
MILLION MT ORIGINALLY EXPECTED BY THE BRAZILIANS BUT HE EXPECTED
THE RIO GRANDE DO SUL TO BE BETTER THAN MANY OBSERVERS WERE
ESTIMATING. ON BALANCE, HE THOUGHT THE CROP WOULD BE 11.5 TO
11.8 MILLION MT, PROBABLY AT THE UPPER END, AND IT COULD GO AS
HIGH AS 12 MILLION MT.

UNQUOTE

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Message Attributes

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